

TOP SECRET

COLLECTION 5

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17 November 1953

MEMORANDUM FOR: Assistant Director, Research and Reports
Assistant Director, Current Intelligence
Assistant Director, National Estimates

SUBJECT: Observations of Mr. Baruch

The following observations of Mr. Baruch may be of interest to you.

"Recently there have been newspaper reports of the Russians selling gold. The amounts of these gold sales and what is bought with the gold should be followed most carefully. For taken with other things, these gold sales could tell us a good deal of what the Kremlin is up to.

"The new Soviet regime is definitely committed to some increase in consumer production. What we do not yet know is whether this means a fundamental change in the Five Year Plan, with a greatly reduced priority for war investment, or whether the increase in consumer production is being sought without any significant change in the ratio of guns to butter in Soviet investment.

"The gold sales could be a means through which the Soviets are raising the supplies of consumer goods without a basic change in the Five Year Plan.

"If that is so, our own prospects become more ominous. If the Soviets hold their military program intact and do not let increased consumer allocations cut into it, we run a terrible risk if our own defense program is cut any further. On the other hand, if the Kremlin does modify the Five Year Plan to reduce the allocations to war investment, some reductions in our military effort might be possible without altering the balance of power.

"Now, more than ever before, the intelligence agencies should exercise the utmost vigilance and energy in watching and collecting all economic intelligence relating to the Soviets. The very fact that Soviet resources are so strained, with virtually no "fat" anywhere in the economy, means that any change in war calculations will show up

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relatively quickly in economic actions. By the same token, economic changes must reflect decisions made in the Kremlin on the prospects of war (or aggression).

"At this time the new Soviet regime may be caught between conflicting pressures, even as we are. Unable to decide finally between these pressures (for maintaining the arms effort against cutting arms to expand civilian output) the Kremlin may seek to put off a basic decision, using measures like the sale of gold to bridge the gap in their own policy."

/s/ Robert Amory, Jr. _{peb}

ROBERT AMORY, Jr.
Deputy Director/Intelligence

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